

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Nora Mead Brownell, and Suedeene G. Kelly.

Panhandle Eastern Pipe Line Company, LP

Docket No. RP05-700-001

ORDER DENYING REHEARING

(Issued April 6, 2006)

1. The Missouri Public Service Commission (MoPSC) filed a request for rehearing of the Commission's October 31, 2005 Order accepting Panhandle's revised tariff sheets and supporting working papers reflecting adjustments to its Fuel Reimbursement Percentages (FRPs).<sup>1</sup> These tariff sheets became effective November 1, 2005. In this order, we deny MoPSC's request for rehearing.

**Background**

2. Section 24 of the General Terms and Conditions (GT&C) of Panhandle's tariff requires it to periodically adjust its FRPs each April 1 and November 1 to reflect increases or reductions in its fuel usage and lost and unaccounted for gas. The FRP consists of the sum of the Current Fuel Reimbursement and the Annual Fuel Reimbursement Surcharge. The purpose of the Current Fuel Reimbursement is to recover Panhandle's projected cost of fuel usage and lost and unaccounted for gas during the six months the charge will be in effect (here the period November 1, 2005 through March 31, 2006). The purpose of the Annual Fuel Reimbursement Surcharge is to true up past over or underrecoveries. The issues raised by MoPSC in its instant rehearing request relate only to the determination of the Current Fuel Reimbursement percentages for Panhandle's Field Zone.

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<sup>1</sup> *Panhandle Eastern Pipe Line Company, LP*, 113 FERC ¶ 61,134, (2005) (October 31, 2005 Order).

3. On September 30, 2005, Panhandle filed tariff sheets establishing the FRPs to be in effect during the period November 1, 2005 through March 31, 2006. These proposed tariff sheets included an FRP for Field Zone service of 0.95%. This reflected (1) a Current Fuel Reimbursement percentage of 1.09 percent, including 1.02 percent to recover projected fuel use (referred to hereafter as the “current fuel use reimbursement percentage”) and .07 percent for projected lost and unaccounted for gas and (2) an Annual Fuel Reimbursement Surcharge of negative 0.14 percent.

4. Panhandle based its proposed current fuel use reimbursement percentage on actual fuel use and throughput data for the previous five years. The fuel use and throughput in the Field Zone in each of the last five years was as follows:

Year	Fuel Use	Throughput (MMcf)
2000	1.19%	463,743
2001	1.24	433,013
2002	1.01	430,580
2003	.95	490,225
2004	.95	475,788

Panhandle determined that the mean of its Field Zone fuel use over the last five years was 1.07 percent. However, it adjusted down its projection to 1.02 percent on the ground that it expected shippers to source more gas at the Cheyenne Plains Gas Pipeline Company receipt point and this would reduce fuel usage in the Field Zone.

5. On October 12, 2005, MoPSC filed a protest that Panhandle had not adequately supported the Field Zone Current Fuel Reimbursement percentage it proposed to charge its shippers. Specifically, MoPSC contended that the proposed 1.02 current fuel use reimbursement percentage was too high. MoPSC argued that the five-year historical data included in Panhandle’s filing shows that when transported volumes increase, fuel use, as a percentage of throughput, decreases. MoPSC pointed out that Panhandle projects 2006 throughput in the Field Zone to be 500,000 MMcf, which is more than in any of the preceding five years. Therefore, it asserted that the Field Zone current fuel use reimbursement percentage proposed in the instant filing should be no more than 0.95 percent, the level of Panhandle’s fuel usage during the two years of the previous five with the highest throughput. As a result, MoPSC’s alternative calculation resulted in a current fuel usage percentage of 0.95%, as compared to Panhandle’s proposed 1.02%. Based upon projected throughput and current high gas prices, MoPSC estimated

that Panhandle's proposed current fuel use percentage would lead to an over-recovery in excess of \$47 million.<sup>2</sup> Further, MoPSC contended that although the Panhandle tariff includes a mechanism to true up over and underrecoveries of gas volumes, this process only provides customers with a credit of gas volumes in future years and, therefore, does not adequately compensate customers for the dollar values of the over-recoveries due to the current prevailing high price of gas.

6. On October 14, 2005, Panhandle filed an Answer to MoPSC's Protest<sup>3</sup> in which Panhandle defended its proposed current fuel use reimbursement percentage for the Field Zone. Panhandle explained that its projections are determined using more than simply mathematical formulas. Instead, Panhandle takes into account projected levels of throughput, anticipated market conditions, current shipper delivery patterns and the available regional sources of gas supplies to be used by shippers. Panhandle also acknowledged that shippers were sourcing more gas from Cheyenne Plains Gas Pipeline Company receipt point, and that this increased sourcing was expected to reduce Field Zone fuel usage. For this reason, when Panhandle calculated its proposed current fuel use percentage for the instant filing, it lowered the fuel retention percentage for the period commencing November 1, 2005, from 1.07%, the mean of the historical field zone compressor fuel usage data for the previous five years, downward to 1.02%. Panhandle defended its proposed current fuel use reimbursement percentage as reflecting not simply historical averages, which it contends is what MoPSC offers, but the result of Panhandle's careful analysis and evaluation of all relevant factors.

7. On October 21, 2005, MoPSC filed an answer to Panhandle's answer,<sup>4</sup> and stated that Panhandle's forecast of increased usage at the Cheyenne Plains Gas Pipeline Company receipt point, leading to reduced Field Zone throughput, was reasonable, but argued that it should be the basis for reducing the current fuel use reimbursement percentage below 1.02 percent. MoPSC also reiterated its contention that Panhandle had failed to take into account the fact that Panhandle's fuel usage as a percentage of throughput decreased as throughput increased.

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<sup>2</sup> MoPSC states that its this calculation uses the October 11, 2005 NYMEX closing price of natural gas.

<sup>3</sup> The Commission accepted Panhandle's Answer to assist the Commission in its analysis of these issues.

<sup>4</sup> For the same reasoning as noted above, the Commission accepted MoPSC's Answer to Panhandle's Answer to assist the Commission in this matter.

8. On November 1, 2005, the Commission accepted Panhandle's filing, noting that Panhandle's methodology for calculating its throughput projections and reimbursement percentages was in compliance with its tariff, and consistent with past FPR filings. The Commission also commented that Panhandle's tariff includes a true-up mechanism should the adjusted fuel rates result in an over-recovery for Panhandle.

9. On November 30, 2005, MoPSC filed a request for rehearing of the Commission's November 1, 2005 Order, arguing that the Order failed to address MoPSC's contention that Panhandle had failed to take into account the fact that at higher throughput levels, Panhandle's fuel usage decreased. MoPSC also argues that this Field Zone fuel use percentage was not calculated using objective standards. Further, MoPSC argues that the inclusion of a true-up mechanism in the Panhandle tariff is not adequate justification for a possibly inflated fuel rate.

10. Finally, as part of its rehearing request, MoPSC argues that section 24.3 of Panhandle's GT&C should be rewritten to include revised language regarding the methodology for computing the current fuel reimbursement percentage. MoPSC offers the following proposed tariff changes. (Proposed new language appears in bold print.)

#### 24.3 Computation of Current Fuel Reimbursement Percentage

The current Fuel Reimbursement Percentage shall be determined on the basis of (1) the estimated Quantities of Gas delivered to Panhandle for the account of Shippers under Rate Schedules FT, EFT, SCT, IT, EIT, IOS, WS, PS, FS, IIOS, IWS, LFT and HFT and (2) the projected Quantities of Gas that shall be required for fuel usage and the last and unaccounted for Gas. **As a starting point for estimating the projected Quantities of Gas that shall be required for fuel usage, Panhandle shall develop a "fuel treadmill" for the Field Area and for the Market Area, based upon five (5) years of historical throughput and fuel usage.**<sup>5</sup>

#### **Discussion**

11. The Commission denies MoPSC's request for rehearing. The Commission previously explained that, in accordance with Panhandle's tariff, Panhandle is permitted to make reasonable projections of its future fuel usage in its formulation of the current fuel reimbursement percentage. As explained by Panhandle, its projection in the instant

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<sup>5</sup> Rehearing Request of MoPSC at 11.

filing is based upon its historical field zone compressor fuel usage data for the previous five years.<sup>6</sup> Projecting future fuel usage is not an exact science, and requires some degree of judgment. Based on the instant record, we find Panhandle's projection to be reasonable. MoPSC's contention that Panhandle projection of Field Zone fuel usage of 1.02 percent is overstated is based on its assertion that as throughput on Panhandle's system increases, its fuel usage as a percentage of throughput decreases. However, the data for the last five years, upon which MoPSC relies, does not clearly show this. We recognize that the two years of highest throughput (2003 and 2004) were also the two years when fuel use was the lowest percentages of throughput (0.95 percent). However, in 2000, when throughput was only marginally less than in 2004 (463 Bcf vs. 475 Bcf), fuel usage as a percentage of throughput was 1.19 percent. Yet in 2002, when throughput was at its lowest (430 Bcf), fuel usage was a substantially lower percentage of throughput (1.01 percent) than in 2000 (1.19 percent) or in 2001 (1.24 percent) when throughput was higher. Thus, there is not a clear correlation between the level of fuel usage and the level of throughput. In these circumstances, we find Panhandle reasonably based its projection on the mean of the historical field zone compressor fuel usage for the previous five years of 1.07 percent, with a downward adjustment to 1.02 percent to reflect the sourcing of more gas from the Cheyenne Plains Gas Pipeline Co.<sup>7</sup> Finally, the Commission also noted that Panhandle has utilized this same methodology for previous FRP filings.

12. MoPSC also bases its rehearing request on its concern that if Panhandle overrecovers fuel, Panhandle's process for truing up over and underrecovered volumes of gas will not offer customers adequate protection since Panhandle may return overrecovered volumes during a later period when gas prices are lower. The Commission recognizes that Panhandle's true-up mechanism only trues up under and overrecoveries of gas volumes, with no adjustment to account for changes in the price of gas. However, the Commission has not required a pipeline mechanism for truing up over and under recoveries of fuel to include a factor for reflecting changes in gas prices, nor does MoPSC seek such a change here. The Commission would expect that over the long-term any changes in price that favored the pipelines in some years would be offset in other years by price changes that favored the shippers.

13. Finally, MoPSC requests that the Commission use its NGA section 5 authority to require Panhandle to change its tariff language for computation of the current fuel reimbursement percentage to provide somewhat more specificity as to how Panhandle should project fuel usage. MoPSC argues that the tariff in its present form is ambiguous

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<sup>6</sup> See Panhandle Answer at 3.

<sup>7</sup> October 31, 2005 Order at P 6.

and, by making changes to the tariff now, the Commission can reduce the possibility of future disputes. We do not find merit in this request. The Commission is without evidence that Panhandle's adjusted rates, calculated in accordance with its existing tariff, have resulted in unjust or unreasonable rates for shippers. All parties are free to contest Panhandle's proposed projections in each FRP filing. For this reason, we conclude that MoPSC has provided no basis for the Commission to require Panhandle to rewrite its tariff.

### **Conclusion**

14. Upon consideration of MoPSC's arguments in support of its request for rehearing, the Commission finds that MoPSC has not offered any new arguments to support its position. We, therefore, remain unpersuaded that there is a basis for changing the prior ruling in this matter. With respect to MoPSC's request that the Commission require Panhandle to rewrite its tariff, we are again without factual justification for concluding that Panhandle's tariff needs to be modified.

### **The Commission orders:**

MoPSC's request for rehearing is denied.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.